

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8008

BILL NUMBER: SB 374

DATE PREPARED: Jan 15, 2001

BILL AMENDED:

SUBJECT: School option income tax.

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FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill permits a school corporation to impose a local option income tax for education (LOITE) of up to 1% on the adjusted gross income of resident taxpayers. It provides that LOITE must be approved by local public question in a general election. It provides that the tax may be imposed or increased only after approval by local public question. It provides for the distribution of LOITE revenue. It excludes LOITE revenue from the school corporation's previous year revenue for purposes of determining state tuition support.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The administration, auditing, and collection of LOITE would result in an increased administrative cost to the Department of State Revenue, the State Board of Tax Commissioners and to the State Budget Agency.

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: This bill would allow school corporations to adopt LOITE at a maximum rate of 1.0 % (in increments of 0.1%) on the adjusted gross income (AGI) of resident taxpayers. School corporations would have the authority to either impose, rescind, increase, or decrease LOITE taxes for their respective school corporation. After the initial adoption of LOITE, school corporations would be allowed to maintain the imposed tax for no more than ten years.

The total amount of LOITE is calculated by determining what taxpayers would have owed in LOITE for an entire taxable year, and then applying that figure to a percentage resulting from the number of actual days that LOITE was in effect during that year. School corporations would be allowed to use LOITE revenue for

any lawful purpose of the school corporation. (LOITE revenue would not be included in “previous year revenue” for the purpose of calculating state tuition support.)

The ultimate impact of this bill would depend upon local action. This analysis assumes that **all** 294 school corporations would adopt LOITE, and that all appropriate ordinances would be adopted.

The following numbers estimate a **total statewide impact** as a result of this bill. Based on the December 19, 2000 Revenue Forecast, a 1.0% LOITE would raise approximately \$1,347.2 M for the 2003 school year (July 2002 to June 2003).

This analysis also assumes that districts are formed as soon as possible. This would mean an adoption of the resolution in July 2001, with the tax becoming effective date of January 1, 2002. The first distribution to school corporations in July of 2002.

Adopting School Corporations

In accordance with this bill, an adopting school corporation is a school corporation that has adopted an ordinance to impose, increase or decrease LOITE. The Department of State Revenue (before July 1 of each year) would be required to estimate and certify to an adopting school corporation and to the auditor of the county in which the adopting school corporation is located, the amount of LOITE revenue that would be collected from July 1 to June 30 of the next year. (This amount would be the adopting school corporation's certified distribution.)

Electing School Corporations

School corporations that have caused a local public question to be placed on a local ballot in a general election but have not yet adopted an ordinance to impose, increase, or decrease LOITE are called electing school corporations. The Department of State Revenue (before December 15 of a year in which a local public question is placed on a general ballot) would be required to estimate and certify to an electing school corporation and to the auditor of the county in which the electing school corporation is located, double the amount of LOITE revenue that would be collected from the date of LOITE adoption to June 30 of the next year. (This amount would be the electing school corporation's certified distribution.)

Certified LOITE distributions would be deposited into a special account within the State General Fund (for each school corporation) for later monthly distributions by the State Auditor to school corporations via county auditors.

This bill would stipulate that elderly and disabled persons be entitled to credits against their LOITE similar to the credits available for individual income taxes. The credit for the LOITE would equal the lesser of the following:

Elderly or Disabled Credit * (LOITE rate/.15); or

the amount of LOITE actually imposed on the individual taxpayer and the individual taxpayer's spouse. The impact of these credits would vary from school corporation to school corporation.

Total statewide elderly credits for 1997 and 1998 were \$7,322,398 and \$7,082,998 respectively.

State Agencies Affected: Department of State Revenue; State Board of Tax Commissioners; State Budget

Agency.

Local Agencies Affected: School Corporations; County Auditors; County Treasurers; County Election Boards; and Town Election Boards.

Information Sources: December 19, 2000 Revenue Forecast; Department of State Revenue.